# PUBLIC DEBT LIMIT—1982

## HEARING

BEFORE THE

## SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

OF THE

## COMMITTEE ON FINANCE UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

MAY 27, 1982

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# PUBLIC DEBT LIMIT—1982

THURSDAY, MAY 27, 1982

U.S. SENATE,
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE COMMITTEE ON FINANCE,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 10 a.m. in room 2221, Dirksen Senate Office Building, Hon. Bob Packwood (chairman) presiding.

Present: Senators Packwood and Byrd.

[The press release announcing the hearing, a summary and description of the administration's proposals, and Senator Dole's prepared statement follow:]

Press Release #82-136

PRESS RELEASE

FOR IMMEDIATE RELEASE
May 19, 1982

UNITED STATES SENATE
COMMITTEE ON FINANCE
Subcommittee on Taxation and
Debt Management
2227 Dirksen Senate Office Building

FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
SETS HEARING ON PUBLIC DEBT

Senator Bob Packwood (R-Oregon), Chairman of the Subcommittee on Taxation and Debt Management, announced today that a hearing on raising the temporary limit on the public debt has been scheduled. The Honorable Roger W. Mehle, Assistant Secretary of the Treasury for Domestic Finance, will testify on the public debt at 9:00 a.m., Thursday, May 27, in Room 2221 of the Dirksen Senate Office Building.

The Treasury Department is also expected to comment on two proposals regarding the debt financing operations of the Federal Government. These proposals involve removing restrictions on the Government's ability to issue long-term debt and authorizing a floating rate system for U.S. savings bonds.

Written Testimony.--The Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies by June 10, 1982, to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510.

P.R. #82-136

# DESCRIPTION OF ADMINISTRATION PROPOSALS ON INCREASING THE PUBLIC DEBT LIMIT AND DEBT MANAGEMENT

Scheduled for a Public Hearing

Before the

COMMITTEE ON FINANCE

on May 27, 1982

Prepared for the

COMMITTEE ON FINANCE

By the

Staff of the Joint Committee on Taxation

May 26, 1982

JCX-22-82

# I. SUMMARY

## Public debt limit

The public debt limit presently is $1,079.8 billion through fiscal year 1982, i.e., through September 30, 1982. The limit consists of a $400 billion permanent limit and a $679.8 billion temporary limit that is in effect through September 1982.

The present limit will not meet Federal financing requirements for the rest of this fiscal year. Treasury estimates that its present debt management program would require enacement of an increased debt limit by the third week in June in order to complete the issue of new 4-year notes on June 30. In addition, very substantial expenditures for social security benefit payments, various retirement programs and payrolls on June 30 and the first three days in July also require timely action on the debt limit in June.

## Savings bond interest rates

The Second Liberty Bond Act provides that the Secretary of the Treasury, with the consent of the President, may increase the maximum interest rate on U.S. savings bonds, Series EE and HH, by not more than 1 percentage point in any six-month period. The Administration last exercised this authority on May 1, 1981, when the yield on Series EE bonds was increased to 9 percent and the yield on Series HH to 8-1/2 percent.

The Administration has proposed that this limitation be repealed and replaced by a provision that would authorize the Secretary of the Treasury to establish interest rates related to current market rates of interest. Treasury intends to use this authority to issue a market rate savings bond whose holders would be guaranteed minimum interest rates that would rise gradually through the first five years after purchase. Bonds held longer than 5 years would earn interest at a rate equal to 85 percent of the average market yield on 5-year Treasury securities, or the guaranteed minimum rate, whichever is higher.

## Interest rate on bonds

The Secretary of the Treasury may issue to the public up to $70 billion in bonds, i.e., obligations that mature more than 10 years after the date of issue, that bear an interest rate in excess of 4-1/4 percent. Treasury has exhausted the $70 billion authority for the exception. No interest rate limitation has been placed on obligations with shorter maturities, e.g., notes, certificates and bills.

The Administration has proposed repeal of the 4-1/4 percent limitation on the rate of interest that may be paid on bonds.

## II. DESCRIPTION OF ADMINISTRATION PROPOSALS

### A. Increase in the Public Debt

**Present law**

The combined permanent and temporary debt limit is $1,079.8 billion, which is in effect through September 30, 1982. This limit is the combination of the permanent debt limit of $400 billion, which has no expiration date, and the temporary debt limit of $679.8 billion, which will expire after September 30, 1982.

**Current debt situation**

The outstanding public debt was $1,069.4 billion at the close of business on May 21, 1982. Treasury estimates that the $10 billion in unused debt limit will be sufficient for the financing needs of the Federal Government through most of June 1982. Treasury has indicated also that the increased debt limit should be passed by the third week of June, so that it may carry out present debt management plans to announce, auction and settle by June 30 on an issue of 4-year notes.

**Administration proposal**

The Administration is requesting that the public debt limit be increased by $195 billion over the present limit to $1,275 through fiscal year 1983. This level is consistent with the Administration's estimate of a $1,265 billion debt through fiscal year 1983, which was estimated for the April revision of the budget; $1,131.8 billion was the estimate of the level at the end of fiscal year 1982. Treasury has increased the estimate by $10 billion in order to raise the level of the operating cash balance from $15 to $20 billion and to provide a $5 billion allowance for contingencies. In recent years, the operating cash balance at the end of September has been greater than $20 billion, and Treasury's request seeks to recognize that experience in setting the public debt limit. An allowance for contingencies is needed in recognition of the uncertainties inherent in making debt limit projections 16 months into the future and the risks involved in the higher average monthly levels of receipts and expenditures with current budget totals.

**Senate budget resolution**

In adopting a budget resolution (S. Con. Res. 92) last week, the Senate specified the appropriate levels of the public debt at $1,144.2 billion through fiscal year 1982 and $1,292.3 billion through fiscal year 1983.

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## B. Rate of Interest Payable on U.S. Savings Bonds

### Present law

The Secretary of the Treasury has discretionary authority to set the rate of interest on savings bonds and savings certificates within certain statutory limits. The minimum investment yield on Series EE savings bonds may not be less than 4 percent (annual rate, compounded semiannually from the date of issuance). There is a statutory maximum interest rate of 5-1/2 percent, but statutory exceptions and exercise of administrative discretionary authority have resulted in the current rates.

The Secretary, with the approval of the President, may increase the investment yeild on any U.S. savings bond above the current rate in any six-month period by no more than 1 percentage point (annual rate compounded semiannually). The authority to make such increases enables the Secretary to increase the rate of interest above the statutory limit and to keep the rate competitive with comparable alternative yields.

Series EE savings bonds now yield 9 percent, compounded semi-annually, when the bonds are held to maturity, which is an 8 year period now. The yield on Series HH bonds is 8-1/2 percent. These bonds have a maturity of 10 years, and the interest is paid semiannually by check. The Secretary used his discretionary authority to put these rates into effect on May 1, 1981. He has not exercised this authority since then. Series EE and HH bonds are not marketable securities.

No person may purchase more than $15,000 in Series EE bonds, at issue price, in any one year. The limit on purchases of Series HH bonds is $20,000.

Section 454 of the Internal Revenue Code, relating to obligations issued at discount, provides the authority for deferral of income tax on the appreciation accrued annually on a Series EE bond. Section 454(a) provides that for a taxpayer on the cash accounting method who holds non-interest bearing obligations issued at discount and redeemable for fixed amounts at stated intervals, the increase in value does not constitute income to him in a taxable year until the bond is redeemed. The taxpayer may elect to include the increased value in gross income each year and, once having made such an election, is bound by the election for all subsequent taxable years until the bond is redeemed. The same privilege is available, in section 454(c), to a Series E savings bond that has matured and has not been redeemed by the taxpayer. The privilege has been extended to Series EE bonds by administrative action. The increase in redemption value is not includible in gross income until the taxable year in which the bond is redeemed.

Reasons for the proposal

The general increase in the structure of interest rates in recent years has resulted in a net increase of redemptions over sales of U.S. savings bonds. In the past 3 years, redemptions have exceeded sales by more than $25 billion. The Secretary's discretionary authority to raise the interest rate on savings bonds was used last on May 1, 1981, to raise the rates on Series EE bonds to 9 percent and to 8-1/2 percent on Series HH bonds.

Treasury did not use its authority to increase the rate on Series EE bonds to 10 percent on November 1, 1981, and it announced then that it would seek legislation to permit varying the savings bond rate with current market rates. The Secretary has stated that increasing the savings bond rate might reduce the net redemptions, but it is an expensive alternative in the long run, if market interest rates declined. Therefore, the Administration has decided to seek discretionary authority to increase or decrease savings bonds interest rates as comparable market rates change.

Explanation of Administration's proposed legislation

The Administration proposal would authorize the Secretary, with the approval of the President, to issue U.S. savings bonds that could assure long-term savers that the rate on savings bonds would continue to be competitive with current market rates. The proposal is that people holding either new or old bonds for at least 5 years from the beginning of the new program will be assured that the return will be no less than 85 percent of the average return on 5-year Treasury marketables during their holding period. They also will be guaranteed a minimum rate, so that they will receive 85 percent of the average market yield on 5-year Treasury securities over the holding period, or the guaranteed minimum rate, whichever is higher.

The rate paid on savings bonds would be less than the marketable rate for several reasons: (1) savings bonds are available in smaller minimum denominations than Treasury marketable debt issues and therefore entail higher administrative costs; (2) savings bonds have tax deferral advantages which increase their effective yield after taxes (relative to marketable securities); and (3) savings bonds are redeemable at par, thereby eliminating the risk of market value depreciation inherent in ownership of marketable Treasury notes. On this basis, a rate on savings bonds equal to 85 percent of the rate on marketable Treasury five-year notes is considered to be a fair rate of return. The amount of savings bonds outstanding would continue to be included within the limit established by the Congress for the public debt. Proceeds from the issue of savings bonds would continue to be available--just as the proceeds from other obligations--to meet public expenditures and to retire outstanding obligations of the United States.

The Secretary would be authorized to promulgate regulations that would allow savings bonds owners to retain bonds for any period beyond original maturity and to continue to earn interest during the period the bond is held. In addition, the yield on savings bonds could be increased for the period remaining to maturity or during the period of extended maturity, or the yield could be changed for any new extension period.

Staff analysis

Treasury proposes that the Secretary be given authority to establish a market-related interest rate for savings bonds.

The new savings bonds would continue to have a guaranteed minimum interest rate which would rise through the first 5 years after purchase to the market-related yield or the guaranteed minimum yield. The maximum rate of interest would be paid on savings bonds held for 5 years or longer and would be no less than 85 percent of the average return on 5-year Treasury marketable securities during the holding period. People who would hold either new or old bonds for at least 5 years from the beginning of the program would be assured or receiving the higher of 85 percent of this average market rate of interest or a guaranteed minimum rate of interest beginning in the sixth year. Bonds held beyond the stated maturity period that otherwise meet requirements would continue to be eligible for the greater of 85 percent of the market rate or a guaranteed minimum rate of interest. New issues of Series EE bonds would receive yields related to current market rates of interest.

A small investor, i.e., one who could not invest $1,000 at once, could find the Series EE bond attractive. This investor has an alternative in a passbook account with a saving and loan presently yielding 5.5 percent (5.25 percent at a commercial bank). Income tax would be payable on the interest earnings, but the after-tax yield could remain in the account and accrue the benefits of compounding. Commercial banks and savings and loan associations now offer a considerable variety of savings instruments with different yields, maturities and minimum investment requirements. The deregulation of banks, as presently scheduled during the next four years, should improve their ability to compete for and hold deposits. Savers in the future will have more savings instruments to select from to satisfy their own requirements.

The proposed savings bond would be attractive to these savers if the after-tax yield at the time of redemption is greater than the alternative private yields. The financial benefits of the savings bonds are the deferral of tax on the compounded yield while the bond is outstanding and the potential that the average yield during these years produces a greater after-tax yield than the same small saver could get from his alternatives.

C. 4-1/4 Percent Limit on Interest Rate on Bonds

Present law

Bonds are U.S. obligations that have a maturity when issued that is longer than 10 years. The rate of interest that may be paid on a bond may not exceed 4-1/4 percent, except that up to $70 billion in outstanding bonds with rates of interest above 4-1/4 percent may be held by the public. The exception for a specified amount of bonds--initially $10 billion--was enacted in 1971, and it applied to all bonds with rates above the ceiling. An amendment in 1973 applied the $10 billion limitation only to bonds held by the public. The last increase in the limit was enacted in October 1980, and it raised the limit to $70 billion.

Reasons for the proposed legislation

The 4-1/4 percent interest rate ceiling has been substantially below current market rates since the mid-1960's. The most recent bond auction, in February 1982, required an interest coupon of 14 percent. Treasury believes that there is no prospect in the forseeable future that bond market rates will fall to 4-1/4 percent.

Treasury has exhausted its $70 billion authority to issue long-term bonds and was forced to cancel its regular quarterly issues of 20-year bonds in April and 30-year bonds in May. Treasury believes it must continue to issue bonds to maintain a presence in all maturity sectors of the bond market and to resist shortening the maturity of the public debt. About half of the privately held marketable debt matures in one year and two-thirds within 2 years. The average maturity was 4 years and one month at the end of February 1982.

Interruption of Treasury's quarterly bond cycle may also disrupt the bond market. Disruption would occur because of market uncertainty about Treasury plans and how to allocate investable funds among private and public issues and among different maturities. In addition, Treasury believes that maintaining a stable bond market reduces borrowing costs in the long run, even though the interest rate when a bond is issued may be high in terms of historical patterns. Bonds issued at high interest rates lock-in the Treasury to pay those rates until the bonds are redeemed, more than 10 years after the issue date.

Explanation of the Administration proposal

The proposal would repeal the provision in the Second Liberty Bond Act (31 U.S.C. 752) that limits the rate of interest on United States Bonds to 4-1/4 percent.

In addition, as a conforming amendment, the proposal would repeal the exception to the 4-1/4 percent ceiling that now limits the amounts that may be issued at rates above 4-1/4 percent and held by the public to $70 billion.

As a result, the Treasury would be able to issue bonds at the prevailing market rate, in amounts the market could absorb, and as frequently as the Secretary determines to be appropriate.

Staff analysis

Between World War II and the beginning of the 1970's, there was a steady shortening of the maturity structure of the Federal debt. In 1946, the average maturity of the debt was 9 years, and by 1976 it had shrunk to 2-1/2 years. This trend was partly a result of statutory limitations on the issuance of long-term debt by the Treasury and partly a result of small increases in the debt outstanding in the market during most of this period. Since the mid-1970's, the Treasury has succeeded in increasing the average maturity to 4 years. The Treasury proposal to remove the statutory cap on long-term bond issues is needed to enable Treasury to continue with the policy.

Arguments for lengthening the maturity of the Federal debt.--Proponents of legislation to permit further lengthening of the maturity of the Federal debt argue that securities with longer maturities are cheaper for the government in the sense that they will involve lower administrative costs. Because the government must come to the market less frequently when it issues longer-term debt, there is less risk of disrupting private securities markets. They also argue that, in view of the large federal deficits which are forecast, Treasury must offer as wide a range of maturities as possible in order to market successfully its huge volume of debt.

It is also contended that Treasury's continuing to issue long-term bonds also helps other sectors of the money market. The prices on actively traded Treasury issues are used as benchmarks in pricing private bond issues, thereby reducing risks to underwriters of those issues. Treasury bond issues also support options and futures markets which are used by portfolio managers to hedge risks.

Arguments against lengthening the maturity on the Federal debt.--Interest rates typically are higher on long-term bonds than on short-term securities, in which case long-term bonds will involve higher outlays for interest. The risk of locking Treasury into a costly interest burden is considered by some analysts to be especially great today, when interest rates embody a sizable inflation premium and when the government itself is predicting substantial declines in interest rates.

Furthermore, there is currently a shortage of lenders willing to commit funds at fixed interest rates for long periods of time. When the Federal Government issues long-term bonds, it tends to crowd other borrowers out of the long-term market. This could have the effect of reducing mortgage lending and of forcing corporations to borrow short-term more than they otherwise would prefer, which increases the risk that they will run into financial difficulties. Some also contend that it is inconsistent for the government to enact credit or subsidy programs to encourage lenders to commit funds to the mortgage market and, at the same time, to crowd those same borrowers out of the long-term market with Treasury bond issues.

Possible alternatives to long-term bond issues.--Several alternatives have been suggested to Treasury issuance of more long-term bonds. These might give Treasury some of the advantages of long-term financing without the ill-effects of fixed-rate long-term bonds. One possibility would be for Treasury to issue a long-term bond with a floating interest rate. Another would be for Treasury to issue a bond whose interest and principal payments were indexed to inflation.

The issuing of these kinds of obligations also would require repeal of the present 4-1/4 percent interest rate ceiling.

The average maturity of the debt could be increased by issuing notes with maturities of 5 to 10 years. There is no interest rate limitation on obligations which are scheduled to mature within 10 years of the issue date.

# STATEMENT OF SENATOR DOLE

## THE PUBLIC DEBT LIMIT

MR. CHAIRMAN--

I KNOW THAT CONDUCTING THIS MORNING'S HEARING IS NOT ONE OF THE MOST PLEASANT TASKS YOU FACE AS CHAIRMAN OF THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT. EVERY TIME WE LOOK AT THE ISSUE OF THE DEBT CEILING WE HOPE IT WILL GO AWAY FOR GOOD, OR AT LEAST FOR A YEAR OR SO. LATELY WE HAVEN'T BEEN ABLE TO AVOID THE ISSUE FOR EVEN A FULL YEAR.

NEVERTHELESS, THIS IS A MATTER WE HAVE TO ADDRESS, AND IT IS SOMETHING WE HAVE BEEN EXPECTING FOR QUITE SOME TIME. I AM GLAD THAT YOU HAVE BEEN ABLE TO SCHEDULE THIS HEARING TO REVIEW THE ADMINISTRATION'S REQUEST FOR A DEBT CEILING INCREASE, SO THAT WE CAN CLEAR THE WAY FOR PROMPT ACTION AND GET ON WITH THE DIFFICULT BUSINESS THAT AWAITS US ON ISSUES OF TAXES AND SPENDING.

THE CEILING ON THE PUBLIC DEBT NOW STANDS AT $1,079.8 BILLION. THAT CEILING IS LEGALLY VALID THROUGH SEPTEMBER 30, 1982, BUT AS I UNDERSTAND IT THE TREASURY DEPARTMENT IS HERE TO ADVISE US THAT THE CEILING PROBABLY WILL BE BREACHED UNLESS WE ACT TO INCREASE IT BY THE THIRD WEEK IN JUNE--LESS THAN A MONTH FROM NOW. IT IS WORTH RECALLING THAT THE PRESENT DEBT LIMIT WAS APPROVED BY CONGRESS AS RECENTLY AS LAST SEPTEMBER--AND IT WAS A TOUGH BATTLE TO GET CONGRESS TO AGREE TO A CEILING THAT EXCEEDS $1 TRILLION. THESE INCREASES DO NOT GET ANY EASIER TO APPROVE AS TIME GOES ON AND THE OUTSTANDING FEDERAL DEBT CONTINUES TO MOUNT.

## A DIFFICULT VOTE

MR. CHAIRMAN, WE ALL UNDERSTAND THAT A VOTE ON THE DEBT CEILING IS SIMPLY A VOTE TO ALLOW THE GOVERNMENT TO GO ON FINANCING THE OBLIGATIONS IT HAS ALREADY INCURRED--OBLIGATIONS INCURRED WITH THE APPROVAL OF THE CONGRESS. IN FACT, ALL WE ARE BEING ASKED TO DO IS RATIFY THE CONSEQUENCES OF OUR OWN ACTIONS IN VOTING FOR SPENDING PROGRAMS AND AUTHORIZING OFF-BUDGET FINANCING THAT CONTINUES TO ADD TO THE DEBT. WE DO HAVE AN OBLIGATION TO BE CANDID ABOUT THIS.

NEVERTHELESS, MANY MEMBERS ARE FINDING IT INCREASINGLY DIFFICULT TO VOTE FOR A PERPETUAL ROUND OF DEBT CEILING INCREASES. THAT IS PARTLY BECAUSE EACH TIME AROUND WE ARE PROMISED THAT THE SITUATION IS IMPROVING, AND THAT THE RATE OF INCREASE IN THE PUBLIC DEBT WILL SLOW DOWN, AND THAT WE WILL GET THE BUDGET INTO BALANCE. IT JUST DOESN'T HAPPEN, WHETHER BECAUSE CONGRESS DOESN'T COOPERATE, OR BECAUSE THE ECONOMY DOESN'T RESPOND AS WAS HOPED, AS IS THE CASE RIGHT NOW.

## TIME TO FOLLOW THROUGH

I WILL SUPPORT AN INCREASE IN THE DEBT CEILING, AND I WILL URGE MY COLLEAGUES TO DO LIKEWISE, BECAUSE I BELIEVE IT IS IN THE INTEREST OF SOUND FINANCIAL MANAGEMENT TO DO SO. I DO NOT WANT TO SEE THE U.S. GOVERNMENT DEFAULT ON ITS OBLIGATIONS, AND I DO NOT WANT TO SEE GOVERNMENT ACTIVITIES OR PAYMENT OF GOVERNMENT OBLIGATIONS IMPEDED JUST BECAUSE OF THE

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DEBT CEILING ISSUE. NEVERTHELESS, IT IS CLEARLY TIME TO DO MORE THAN PROMISE IMPROVEMENTS IN OUR FISCAL MANAGEMENT--IT IS TIME TO GUARANTEE THEM. THAT IS WHY I HAVE SUGGESTED THAT IT MAY BE NECESSARY AND DESIRABLE TO ENACT SIGNIFICANT DEFICIT-REDUCTION MEASURES, ON BOTH THE SPENDING AND TAX SIDE, AS PART OF A PACKAGE TO WIN APPROVAL OF A DEBT-CEILING INCREASE. AT SOME POINT WE HAVE TO TAKE FIRM AND UNEQUIVOCAL ACTION TO CONVINCE THE AMERICAN PEOPLE OF THE SERIOUSNESS OF THIS PROCESS. I HOPE THAT ACTION COMES SOONER RATHER THAN LATER, AND THAT WE WILL PUT PARTISAN CONCERNS ASIDE TO GET THE JOB DONE.

## DEBT MANAGEMENT PROPOSALS

THE ADMINISTRATION IS ALSO REQUESTING LEGISLATIVE AUTHORITY TO ISSUE MORE LONG-TERM DEBT AND TO ISSUE A FLOATING-RATE SAVINGS BOND. I KNOW THAT SOME MEMBERS HAVE A CONCERN THAT AN INCREASE IN LONG-TERM TREASURY DEBT COULD PUT FURTHER PRESSURE ON THE BOND MARKETS. AT THE SAME TIME, I APPRECIATE THE FACT THAT THE TREASURY HAS WORKED UP A CONSISTENT PLAN, OVER SEVERAL ADMINISTRATIONS, TO BALANCE OUT THE MATURITIES OF THE DEBT IT ISSUES. THOSE ARE FACTORS WE WILL HAVE TO WEIGH IN CONSIDERING THIS REQUEST AND DETERMINING HOW BEST TO ENSURE THAT THE FINANCING OPERATIONS OF THE FEDERAL GOVERNMENT ARE STEADY, CONSISTENT, AND PREDICTABLE.

I AM GLAD WE HAVE ASSISTANT SECRETARY ROGER W. MEHLE WITH US THIS MORNING, AND I LOOK FORWARD TO HEARING HIS COMMENTS ABOUT THE REQUESTS HE IS PUTTING BEFORE US THIS MORNING.

Senator PACKWOOD. We are gathered here today to perform the dreary but essential task of uniting the debt ceiling with the budget, more or less. We go through this about once every 6 months.

I'll make the same statement I have made before. As far as I'm concerned, raising the debt ceiling is simply admitting—Harry, I think, would call it "failure"; I'll simply say "fate"—simply admitting that we are going to borrow to pay for the items that we've said we are going to spend for.

You have no choice. If you are going to go ahead and have the budgets we have and the deficits we have and make the promises we make, we have no choice but to borrow the money if we are not going to raise it by taxes. And we now find ourselves in that dreary situation again.

So the hearing this morning is principally—although there are other issues—for the extension of the debt limit.

Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Mr. Secretary, you seek, as I understand it, an increase of $195 billion.

Senator PACKWOOD. Harry, why don't you give an opening statement, if you have one; then let him make his statement, because he hasn't said anything yet.

Senator BYRD. Oh. Very good.

Senator PACKWOOD. I don't know if you have an opening statement or not.

Senator BYRD. I won't have an opening statement. I will go into questioning after he reads his testimony.

Senator PACKWOOD. Mr. Secretary, we will put your entire statement in the record as given, so you won't have to read it en toto. The floor is yours.

## STATEMENT OF HON. ROGER W. MEHLE, ASSISTANT SECRETARY OF THE TREASURY (DOMESTIC FINANCE), WASHINGTON, D.C.

Secretary MEHLE. Thank you, Mr. Chairman.

My purpose here today, Mr. Chairman and members of the subcommittee, is to advise you of the need for congressional action to increase the public debt limit and to repeal the interest rate ceilings on savings bonds and on Treasury marketable bonds. I will, with your permission, summarize my testimony and submit the full text for the record.

The present temporary debt limit of $1,079.8 billion will expire on September 30, 1982, and the debt limit will then revert to the permanent ceiling of $400 billion. Based on the Office of Management and Budget's April estimates of fiscal years 1982 and 1983 budget deficits of $100.5 and $101.9 billion, respectively, and other transactions affecting debt subject to limit, the amount of debt subject to limit outstanding on September 30, 1983, will total $1,270 billion, assuming a $20 billion cash balance on that date. Given this projected debt level and allowing a $5 billion margin for contingencies, we now recommend and request that the debt limit be increased to $1,275 billion through September 30, 1983.

We recognize that Congress has not yet completed action on the first budget resolution for fiscal year 1983 and that that resolution may contain a different debt limit figure for fiscal year 1983. We do expect, however, that, given the efforts in Congress to develop a budget with a deficit close to $100 billion, any resultant debt subject to limit amount will be in the same order of magnitude as the amount we are requesting. In that regard, we urge that any budget resolution debt limit figure incorporate our recommended $5 billion margin for contingencies and our assumption that the cash balance at the end of fiscal year 1983 will be $20 billion.

As to the timing of congressional action on the debt limit bill, our current estimates indicate that final action on the bill will be needed by the third week of June. This will give the Treasury sufficient time to auction a new 4-year note for subsequent issuance on June 30 to refund maturing securities and to raise the new cash needed at that time. The issuance of the 4-year note will cause the debt subject to limit to rise above the present statutory ceiling of $1,079.8 billion. Treasury's earlier projection that action would be needed late in May has been changed due to slightly lower estimates of our borrowing needs through early June because of a combination of higher receipts and lower outlays.

Timely action on the debt ceiling is required to avoid a repetition of past dislocations which have hampered Treasury financing operations. In recent years delays in action on the debt limit have generated market uncertainty about Treasury financing schedules, and on several occasions emergency measures have been undertaken including suspension of savings bonds sales, cancellation of scheduled securities auctions, and failure to invest trust funds fully. A point may be reached at which the President must consider which obligations should be paid—social security checks, payroll checks, unemployment checks, defense contracts—or indeed whether for the first time in its history the United States will default on its securities. I hope we can avoid such problems this year.

To summarize our debt limit request, Mr. Chairman, we urge that legislation be enacted promptly to provide the requested amount of increase in the debt limit to $1,275 billion, to be effective upon the date of enactment and through the end of fiscal year 1983.

I would like to turn now to our proposal to repeal the interest rate ceiling on savings bonds. For most of the past 45 years the savings bond program has been a relatively stable source of funds, financing a significant portion of the public debt. The program broadens the market for Government securities, and the cash raised by savings bonds reduces the amount of borrowing that the Treasury must undertake on a competitive basis in the open market. The relatively long maturity of savings bonds helps with Treasury's current objective of achieving a better maturity structure for the public debt. Also, savings bonds have proved to be a cost-effective means of financing the debt with ultimate savings to the American taxpayer.

The program generally has been popular with the American people. It has helped instill a habit of thrift among small savers, and it has received broad support from leaders of industry and finance. Yet, the future role of the savings bond program in financ-

ing the public debt will depend primarily on the interest rate on savings bonds relative to rates on competing instruments.

Legislation enacted in October 1980 authorized Treasury to increase the interest rate on savings bonds by up to 1 percent during any 6-month period. Accordingly, Treasury increased the maximum rate on savings bonds from 7 percent to 8 percent on November 1, 1980, and to 9 percent on May 1, 1981. Yet the maximum rate increases permitted under existing law have not been sufficient to stem the savings bond cash drain from the Treasury, because of higher interest rates available from other market instruments. The resulting cash drain from the savings bond program, over $28 billion since 1978, must be financed by other more expensive Treasury borrowing; namely, the issuance of additional marketable securities at interest rates higher than the savings bond rate.

To stem the cash drain, Treasury must assure savings bonds investors that they will receive a fair rate of return throughout their holding period. Thus, Treasury must be able to promise the small saver that the rate on savings bonds will vary with market rates of interest.

The need is for a savings bond rate that automatically increases and decreases with market rates, and that is what we propose. Simply stated, the major change will be that people holding either new or old bonds for at least 5 years from the beginning of the new program will be assured that their return will be no less than 85 percent of the average return on 5-year Treasury marketables during their holding period. They will also be guaranteed a minimum rate; so they will receive 85 percent of the average market yield on 5-year Treasury securities over the holding period or a guaranteed minimum rate, whichever is greater. Five-year Treasury marketable securities currently are yielding about 13¾ percent. If this rate prevailed over the holding period, the savings bond rate would be about 11.7 percent.

A healthy savings bond program is not only good for small savers, it is good for the Treasury as well. Even at the higher market-related rates we propose to pay to savings bond holders, the cost to the Treasury will be less than the alternative cost of financing this debt on the open market. Thus, the longer we delay the introduction of the new variable rate savings bond, the greater the cost of financing the debt.

Finally, I would like to discuss our proposal to repeal the interest ceiling on marketable Treasury bonds.

The maximum interest rate that the Treasury may pay on marketable bonds has long been limited by law to 4¼ percent. This limit did not become a serious obstacle to Treasury issues of new bonds until the midsixties. At that time market rates of interest rose above 4¼ percent, and the Treasury was precluded from issuing new bonds. The average length of the privately held marketable debt of the Treasury declined steadily from 5¾ years in mid-1965 to about 2 ½ years in 1975, because of the heavy reliance by the Treasury on short-term bill financing of the large budget deficits during this period.

Today the 4¼-percent ceiling applies only to Treasury issues with maturities in excess of 10 years, and certain amounts such as bonds held by the Federal Reserve and Government accounts have

been exempted from this ceiling. In 1971, Congress authorized the Treasury to issue up to $10 billion of bonds without regard to the 4¼-percent ceiling. In 1973 Congress relaxed the $10 billion limit by applying it only to private holdings. The dollar limit since has been increased from time to time, most recently on October 3, 1980, when the limit was raised to $70 billion.

Since 1975, the Treasury's debt-extension policies have moved the average length of the marketable debt from 2 years and 5 months in January 1976 to 4 years in March 1982, thus reducing the administrative burden and the market-disrupting effect of frequent Treasury operations to refund maturing issues. Yet, while the Treasury has significantly improved the maturity structure of the debt in recent years, almost one-half of outstanding marketable debt matures within 1 year. This refunding need must be added to Treasury's new cash-borrowing requirement to determine gross Treasury issuance in the market. Because of the short average maturity of outstanding Treasury debt, long bond issuance must remain an integral part of Treasury's debt management policy.

Some observers have suggested that Treasury should avoid the sale of long-term securities when interest rates are "high", in order to avoid locking in high interest costs. However, any definition of "high" interest rates is extremely subjective and carries with it an implicit forecast of future interest rates. If Treasury "temporarily" withdrew from the bond market because it felt rates were "high", market reaction to reentry in the long market could well be that rates were "low." Thus, reentry could be interpreted as a Government forecast of higher rates in the future. Management of the debt based on interest rate forecasts could create tremendous uncertainty as to Treasury's financing schedule, and over the long run would result in higher costs to the Government by reducing the market's willingness to bid in auctions. Therefore, a consistent policy of debt issuance across the maturity spectrum must be maintained without regard to expected interest rate developments.

At this point I would like to note that market uncertainty has recently arisen because of congressional inaction on Treasury's request to repeal the 4¼-percent ceiling on long bonds. As mentioned earlier, the face amount of Treasury bonds held by the public with interest rates in excess of 4¼ percent may not exceed $70 billion. Treasury has exhausted this authority. Unless Congress repeals the 4¼-percent ceiling or grants additional issuing authority, no more bonds may be sold. In fact, Treasury was forced to cancel its regular auctions of 20-year bonds in March, and 30-year bonds in April, and will be forced to consider the same thing with respect to a 20-year issuance of bonds in June of this year. These cancellations are the result of congressional inaction. Inability to sell these securities has created dislocations in the market and has raised questions about the Treasury's ability to carry out predictable, prudent debt management policies. I urge Congress to expedite the long-bond authority legislation so that this uncertainty can be resolved.

In conclusion, Mr. Chairman, we face large borrowing requirements over the foreseeable future. This administration abhors interest rate ceilings as ineffective attempts to control prices, and incompatible with our commitment to a free-market pricing system. We view the interest rate ceilings on savings bonds and marketable

bonds as anachronisms which serve only to frustrate the efficient management of the public debt. A viable and modern savings bond program and removal of the 4¼-percent ceiling on Treasury marketable bonds will help the Treasury meet these financing needs in an efficient, cost-effective manner. Interest on the public debt is estimated to total a record $116 billion in fiscal year 1982. We must make every effort to reduce this staggering cost to the taxpayer. Especially at this time of severe budget stringency, we must not add to our budget costs by mismanaging the public debt.

That concludes my oral statement, Mr. Chairman. I will be happy to respond to your questions.

[The prepared statement follows:]

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 a.m.
May 27, 1982

STATEMENT OF THE HONORABLE ROGER W. MEHLE
ASSISTANT SECRETARY OF THE TREASURY (DOMESTIC FINANCE)
BEFORE THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE SENATE COMMITTEE ON FINANCE

Mr. Chairman and Members of the Committee:

My purpose here today is to advise you of the need for Congressional action to increase the public debt limit and to repeal the interest rate ceilings on savings bonds and on Treasury marketable bonds.

Debt Limit

The present temporary debt limit of $1,079.8 billion will expire on September 30, 1982, and the debt limit will then revert to the permanent ceiling of $400 billion. Based on the Office of Management and Budget's April estimates of FY 1982 and FY 1983 budget deficits of $100.5 billion and $101.9 billion, respectively, and other transactions affecting debt subject to limit, the amount of debt subject to limit outstanding on September 30, 1983 will total $1,270 billion, assuming a $20 billion cash balance on that date. Given this projected debt level, and allowing a $5 billion margin for contingencies, we now recommend and request that the debt limit be increased to $1,275 billion through September 30, 1983.

We recognize that Congress has not yet completed action on the first budget resolution for FY 1983 and that that resolution may contain a different debt limit figure for FY 1983. We do expect however that, given the efforts in Congress to develop a 1983 budget with a deficit close to $100 billion, any resultant debt subject to limit amount will be in the same order of magnitude as the amount we are requesting. In that regard we urge that any budget resolution debt limit figure incorporate our recommended $5 billion margin for contingencies and our assumption that the cash balance at the end of FY 1983 will be $20 billion.

As to the timing of Congressional action on the debt limit bill, our current estimates indicate that final action on the bill will be needed by the third week of June. This will give the Treasury sufficient time to auction a new 4-year note for subsequent issuance on June 30 to refund maturing securities and to raise the new cash needed at that time. The issuance of the 4-year note will cause the debt subject to limit to rise above the present statutory ceiling of $1,079.8 billion. Treasury's earlier projection that action would be needed late in May has been changed due to a slightly lower estimate of our borrowing needs through early June because of a combination of higher receipts and lower outlays.

Timely action on the debt ceiling is required to avoid a repetition of past dislocations which have hampered Treasury financing operations. In recent years, delays in action on

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the debt limit have generated market uncertainty about Treasury financing schedules and on several occasions emergency measures have been undertaken, including suspension of savings bond sales, cancellation of scheduled security auctions and failure to fully invest trust funds. A point may be reached at which the President must consider which obligations should be paid -- social security checks, payroll checks, unemployment checks, defense contracts -- or, indeed, whether, for the first time in history, the United States will default on its securities. I hope we can avoid such problems this year.

Separate legislation for a statutory debt limit has not been an effective way for Congress to control the debt. The increase in the debt each year is simply the result of earlier decisions by Congress on the amounts of Federal spending and taxation. Consequently, the only way to control the debt is through firm control over the Federal budget. In this regard, the Congressional Budget Act of 1974 greatly improved Congressional budget procedures and provided a more effective means of controlling the debt. That Act requires Congressional concurrent resolutions on the appropriate levels of budget outlays, receipts, and public debt. This new budget process thus assures that Congress will face up each year to the public debt consequences of its decisions on taxes and expenditures.

The debt limit act of September 29, 1979, also amended the rules of the House of Representatives to tie the establishment of the debt limit to the Congressional budget process. Under

the new House rules, upon adoption by the Congress of a budget resolution, the vote by which the House adopts the budget resolution is deemed to be a vote in favor of a joint resolution changing the statutory debt limit to the amount specified in the budget resolution. The joint resolution on the debt limit is then transmitted to the Senate for further legislative action. No comparable procedure exists in the Senate. The Senate must still vote twice on the debt limit figure, in the budget resolution and in the separate debt limit bill.

To summarize our debt limit request, Mr. Chairman, we urge that legislation be enacted promptly to provide the requested amount of increase in the debt limit to $1,275 billion, to be effective upon the date of enactment and through the end of FY 1983.

Savings bonds

I would like to turn now to our proposal to repeal the interest rate ceiling on savings bonds. For most of the past forty-five years, the savings bonds program has been a relatively stable source of funds, financing a significant portion of the public debt. The program broadens the market for Government securities, and the cash raised by savings bonds reduces the amount of borrowing that the Treasury must undertake on a competitive basis in the open market. The relatively long maturity of savings bonds helps with Treasury's current objective of achieving a better maturity structure of the public debt. Also, savings bonds have proved to be a cost-effective means of financing the debt, with ultimate savings to the American taxpayer.

The program generally has been popular with the American people, has helped instill a habit of thrift among small savers, and has received broad support from leaders of industry and finance. Yet the future role of the savings bonds program in financing the public debt will depend primarily on the interest rate on savings bonds relative to rates on competing instruments.

Legislation enacted in October 1980 authorized Treasury to increase the interest rate on savings bonds by up to one percent during any six-month period. Accordingly, Treasury increased the maximum rate on savings bonds from 7 percent to 8 percent on November 1, 1980 and to 9 percent on May 1, 1981. Yet the maximum rate increases permitted under existing law have not been sufficient to stem the savings bond cash drain from the Treasury, because of higher interest rates available from other market instruments. Savings bond redemptions exceeded sales by over $5 billion in 1979, over $11 billion in 1980, nearly $9 billion in 1981, and by $2-1/2 billion in the first 4 months of 1982 (See Chart 1).

This substantial cash drain from the savings bond program — over $28 billion since 1978 — must be financed by other, more expensive, Treasury borrowing, namely the issuance of additional marketable securities at interest rates much higher than the savings bond rate. Interest rates on Treasury marketable intermediate notes are currently around 13-3/4 percent, compared to the current guaranteed rate of 9 percent paid to Series EE bond holders after 8 years.

To stem the cash drain, Treasury must assure savings bond investors that they will receive a fair rate of return throughout their holding period. Thus Treasury must be able to promise the small saver that the rate on savings bonds will vary with market rates of interest. Large investors can achieve this assurance through investment in short-term Treasury bills.

The alternative of raising the savings bond rate to, say, 10 percent now and possibly a higher rate later, under existing legislation, was rejected by Treasury. While such rate increases might over time reduce the savings bond cash drain, they would be relatively expensive over the long run if market rates of interest declined. In this regard, savings bonds differ from long-term marketable debt. Holders of marketable securities do not have the option of redeeming their securities at par, and thus bear market risk not borne by savings bond investors. Also, there is no way under existing legislation that Treasury could assure long-term savers that the rate on savings bonds would continue to be competitive with current market rates. The need is for a savings bond rate that automatically increases, and decreases, with market rates, and that is what we propose. Simply stated, the major change will be that people holding either new or old bonds for at least 5 years from the beginning of the new program will be assured that their return will be no less than 85 percent of the average return on 5-year Treasury marketables during their holding period. They will also be guaranteed a minimum rate; so they will receive 85 percent of the average market yield on 5-year Treasury securities over the holding

period, or the guaranteed minimum rate, whichever is higher. Five-year Treasury marketable securities currently are yielding about 13-3/4 percent. If this rate prevailed over the holding period, the savings bond rate would be about 11.7 percent.

The rate paid on savings bonds must be less than the marketable rate for several reasons: (1) savings bonds are available in smaller minimum denominations and therefore entail higher administrative costs; (2) savings bonds have tax deferral advantages which increase their effective yield after taxes (relative to marketable securities); and (3) savings bonds are redeemable at par, thereby eliminating the risk of market value depreciation inherent in ownership of marketable Treasury notes. On this basis, a rate on savings bonds equal to 85 percent of the rate on marketable Treasury five-year notes is a fair rate of return.

A healthy savings bonds program is not only good for small savers it is good for the Treasury too. Even at the higher market-related rates we propose to pay to savings bond holders the costs to the Treasury will be less than the alternative cost of financing this debt in the open market. Thus the longer we delay the introduction of the new variable rate savings bond the greater the cost of financing the debt.

Long-Term Bonds

Finally, I would like to discuss our proposal to repeal the interest ceiling on marketable Treasury bonds.

The maximum interest rate that the Treasury may pay on marketable bonds has long been limited by law to 4-1/4 percent. This limit did not become a serious obstacle to Treasury issues of new bonds until the mid-1960's. At that time market rates of interest rose above 4-1/4 percent and the Treasury was precluded from issuing new bonds. The average length of the privately-held marketable debt of the Treasury declined steadily from 5-3/4 years in mid-1965 to about 2-1/2 years in 1975, because of the heavy reliance by the Treasury on short-term bill financing of the large budget deficits during this period (See Chart 2).

Congress first granted relief from the 4-1/4 percent ceiling in 1967 when it redefined, from 5 to 7 years, the maximum maturity of Treasury notes. Since Treasury note issues are not subject to the 4-1/4 percent ceiling on bonds, this permitted the Treasury to issue securities in the 5 to 7 year maturity area without regard to the interest rate ceiling. In the debt limit act of March 15, 1976, the maximum maturity on Treasury notes was increased from 7 to 10 years. Today, therefore, the 4-1/4 percent ceiling applies only to Treasury issues with maturities in excess of 10 years, and certain amounts, such as bonds held by the Federal Reserve and Government accounts, have been exempted from this ceiling. In 1971, Congress authorized the Treasury to issue up to $10 billion of bonds without regard to the 4-1/4 percent ceiling. In 1973 Congress relaxed the $10 billion limit by applying it only to private holdings. The dollar limit since has been increased from time to time, most recently on October 3, 1980, when the limit was raised to $70 billion to accommodate additional long-term financing (See Chart 3).

Since 1975 the Treasury's debt extension policies have moved the average length of the marketable debt from 2 years, 5 months in January 1976 to 4 years in March 1982, thus reducing the administrative burden and the market-disrupting effects of frequent Treasury operations to refund maturing issues. Yet while the Treasury has significantly improved the maturity structure of the debt in recent years, almost one half of outstanding marketable debt matures within one year (See Chart 4). This refunding need must be added to Treasury's new cash borrowing requirement to determine gross Treasury issuance in the market. Because of the short average maturity of outstanding Treasury debt, long bond issuance must remain an integral part of Treasury's debt management policy.

Some observers have suggested that Treasury should avoid the sale of long-term securities when interest rates are "high", in order to avoid locking in high interest costs. However, any definition of "high" interest rates is extremely subjective and carries with it an implicit forecast of future interest rates. If Treasury "temporarily" withdrew from the bond market because it felt rates were "high", market reaction to reentry in the long market could well be that rates were "low". Thus reentry could be interpreted as a Government forecast of higher rates in the future. Management of the debt based on interest rate forecasts would create tremendous uncertainty as to Treasury's financing schedule and, over the long run, would result in higher costs to the Government by reducing the market's willingness to bid in auctions. Therefore, a consistent policy of debt issuance across the maturity spectrum must be maintained without regard to expected interest rate developments.

I would also note that, because of the large volume of maturing obligations refinanced each year, interest expense on the public debt is extremely sensitive to interest rate movements. This adds volatility to the interest expense component of Federal outlays. As interest rates move up and down, Treasury's interest expense also rises or falls. As long as the debt outstanding retains this short-term character, debt extension must be a part of our debt operations.

At this point I would like to note that market uncertainty has recently arisen because of Congressional inaction on Treasury's request to repeal the 4-1/4 percent ceiling on long bonds. As mentioned earlier, the face amount of Treasury bonds held by the public with interest rates in excess of 4-1/4 percent may not exceed $70 billion. Treasury has exhausted this authority (See Chart 3). Unless Congress repeals the 4-1/4 percent ceiling, or grants additional issuing authority, no more bonds may be sold. In fact, Treasury was forced to cancel its regular auctions of 20-year bonds in March and 30-year bonds in April. These cancellations are a result of Congressional inaction. Inability to sell these securities has created dislocations in the market and raised questions about the Treasury's ability to carry out predictable, prudent debt management policies. I urge Congress to expedite the long bond authority legislation so that this uncertainty can be resolved.

In conclusion Mr. Chairman, we face large borrowing requirements over the foreseeable future. This Administration abhors interest rate ceilings as ineffective attempts to control prices and incompatible with our commitment to a free market pricing system. We view the interest rate ceilings on savings bonds and marketable bonds as anachronisms which serve only to frustrate the efficient management of the public debt. A viable, modern savings bonds program and removal of the 4-1/4 percent ceiling on Treasury marketable bonds will help the Treasury meet these financing needs in an efficient, cost-effective manner. Interest on the public debt is estimated to total a record $116 billion in FY 1982. We must make every effort to reduce this staggering cost to the taxpayer. Especially at this time of severe budget stringency, we must not add to our budget costs by mismanaging the public debt.

That concludes my prepared statement, Mr. Chairman. I will be happy to respond to your questions.

Chart 1

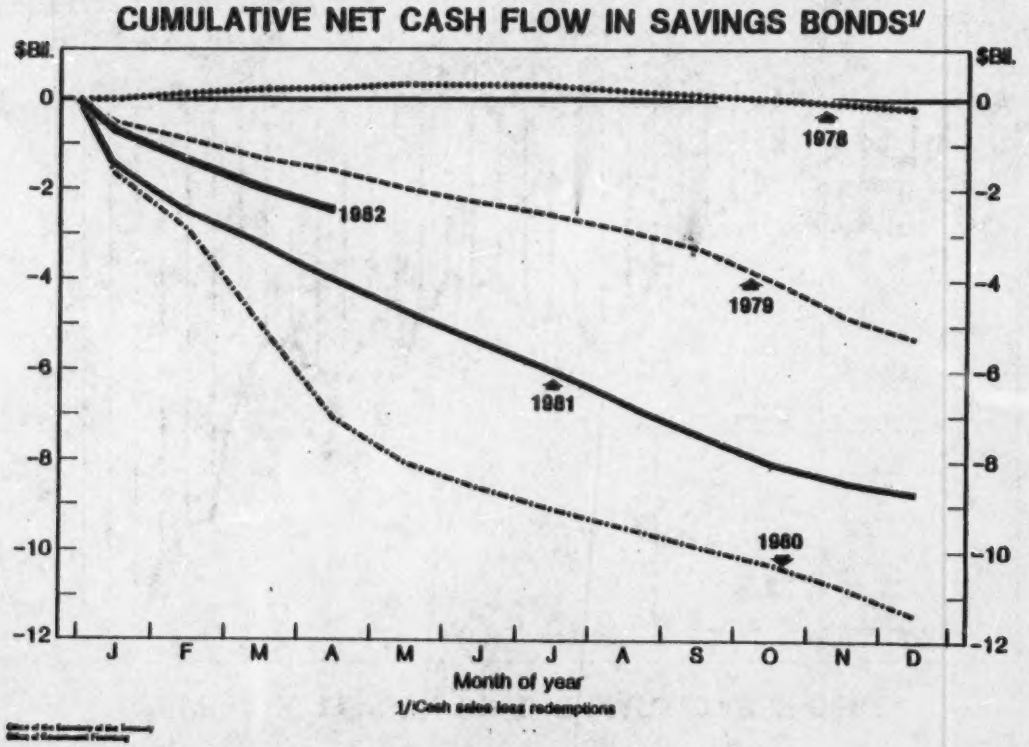

CUMULATIVE NET CASH FLOW IN SAVINGS BONDS1/
$Bil.
0
-2
-4
-6
-8
-10
-12
1978
1982
1979
1981
1980
J
F
M
A
M
J
J
A
S
O
N
D
Month of year
1/Cash sales less redemptions

Chart 2

## AVERAGE LENGTH OF THE MARKETABLE DEBT

Privately Held

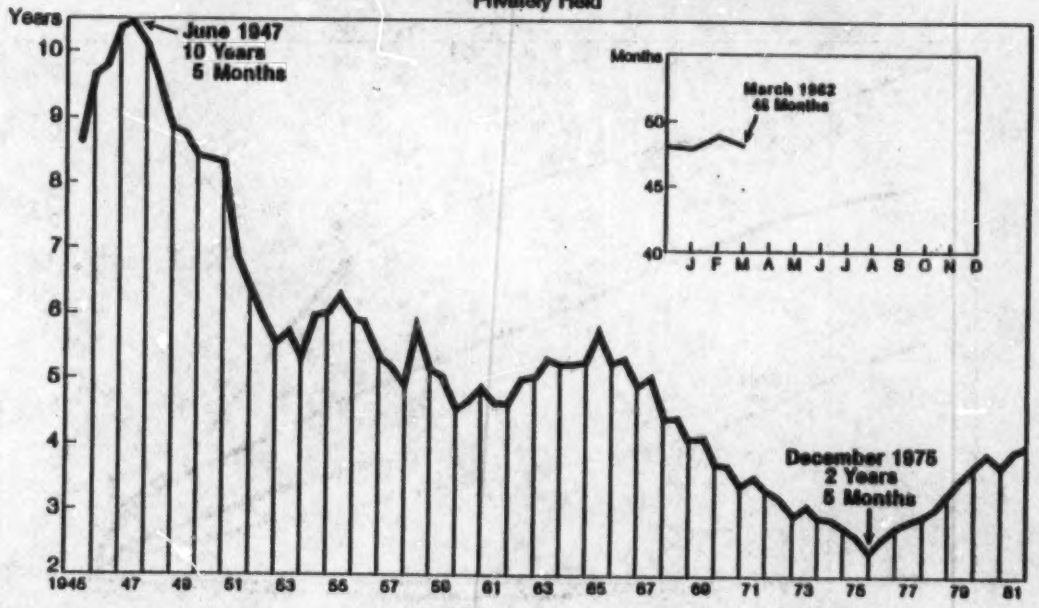


Chart 3

## USE OF AUTHORITY TO ISSUE TREASURY BONDS WITH INTEREST RATE OVER 4¼ PERCENT

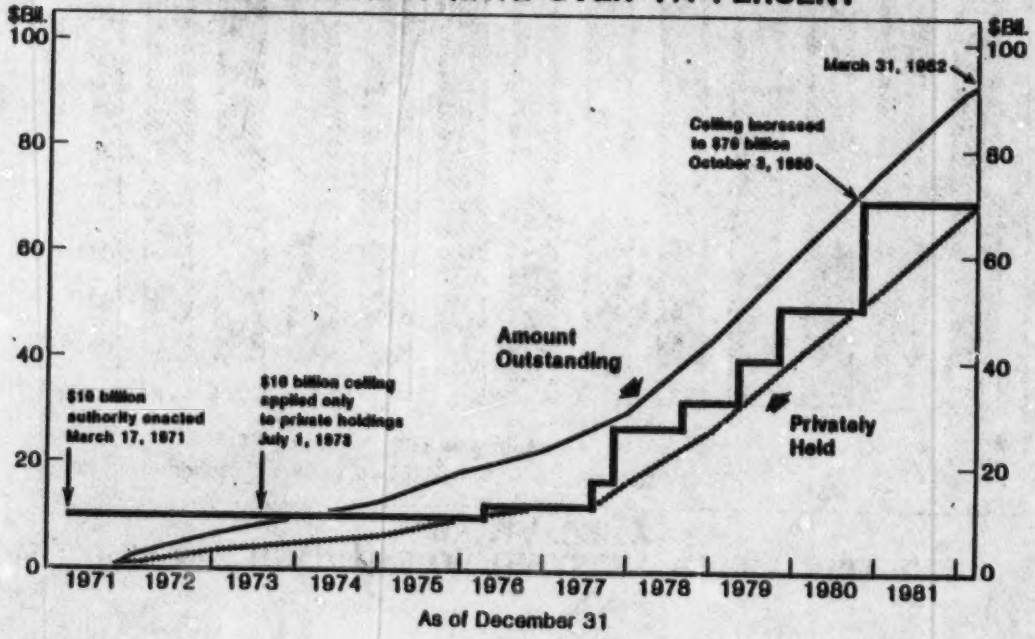
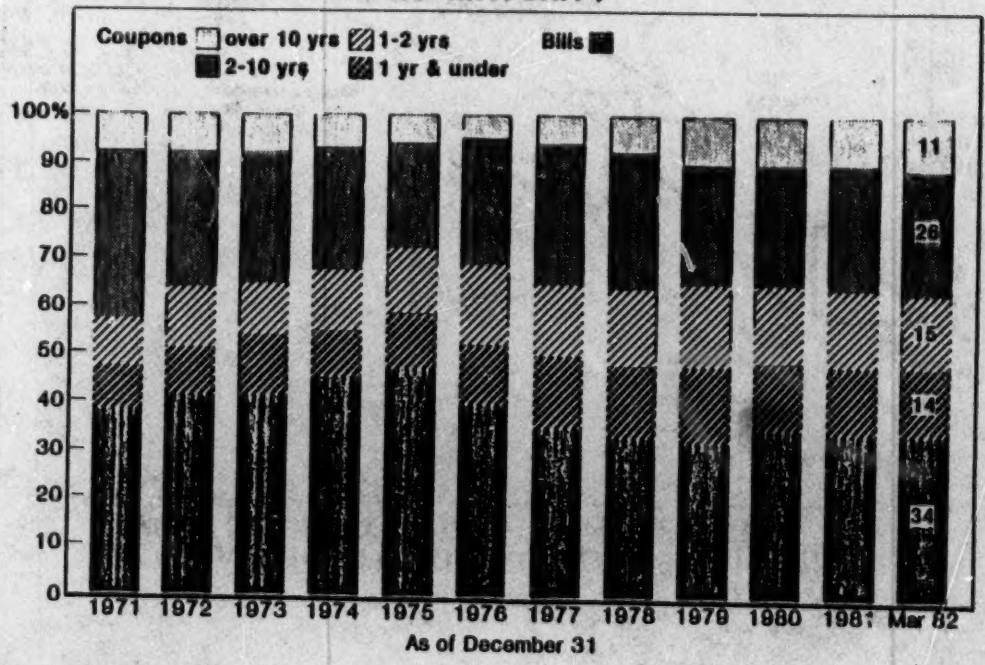


Chart 4

## PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT BY MATURITY




Office of the Secretary of the Treasury
Office of Government Financing

Senator PACKWOOD. Mr. Secretary, what is the legal difference between a note and a bill and a bond?

Secretary MEHLE. A bill is an obligation of the Treasury that matures in 1 year or under. A note is an obligation that matures in under 10 years. And a bond is an obligation that has a maturity in excess of 10 years.

Senator PACKWOOD. So, from the standpoint of the obligation of the Treasury, they are equal under all of them; it's just a question of duration?

Secretary MEHLE. Their legal obligation is the same, but their maturity differs.

Senator PACKWOOD. From the standpoint of the bearer, the purchaser, they are all the same? They are equally negotiable, and they are all sold roughly in the same form of auction?

Secretary MEHLE. That is correct.

Senator PACKWOOD. Mr. Secretary, I know that Harry Byrd has questions for you; I don't. I regard this hearing as a rote hearing that we go through periodically. I am glad to see that you are making the request for a change on the interest on both the savings bonds and your Treasury bonds. I think that has long been needed, and we have been very lucky, I think, considering the low rate of interest, that we have not had a greater outflow than we have had. Recently it has been bad, but how we have put it off this long I don't know. I think you are going to have to change, and it is probably the best stable sort of funding that the Treasury has.

Senator BYRD. Mr. Secretary, you are asking for an increase in the debt ceiling of $195 billion. That is to take care of the deficits which will occur during the 15-month period of July, August, and September of this year and the next 12 months—a total of 15 months. Am I correct in that?

Secretary MEHLE. That's right, sir.

Senator BYRD. So, in other words, you anticipate a deficit of, in round figures, $195 billion?

Secretary MEHLE. We anticipate a deficit for 1982 based on the April OMB budget review of $100.5 billion. The 1983 deficit is $101.9 billion. The debt subject to limit is a function not only of the deficit, as you know, but also the off-budget deficit and the trust fund surpluses.

Senator BYRD. Now, you mentioned 1982. The deficit in the budget resolution which the Senate passed the other night is $118 billion, not including the off-budget deficit. Is that correct?

Secretary MEHLE. Yes, sir.

Senator BYRD. So if you add the off-budget deficit, which I estimate to be $22 billion, that means that your deficit for 1982, the current year, will be $140 billion.

Secretary MEHLE. Upon those figures it does, but that is not what the administration expects the deficit to be.

Senator BYRD. Well then, I wonder why the Senate would pass a resolution calling for those deficits? I realize you are not in a good position to answer that. [Laughter.]

Senator PACKWOOD. We can hold the administration responsible, Harry, for many things; but I don't think the action of the Senate is their responsibility.

Senator BYRD. No, I don't think the action of the Senate is their responsibility, unfortunately.

All right. Let me take a couple of other figures.

Now, the Senate budget resolution which the Senate passed the other night provides for spending which will lead to a national debt of $1,533 billion at the end of September 1985. Does that vary a great deal from your estimate?

Secretary MEHLE. Well, we don't have an estimate that goes through fiscal year 1985.

Senator BYRD. All right. Why don't we just stick with what the Senate has already done. And it was done by those representing the administration, or those sympathetic with the administration—those who are working with the administration. So why don't we use that figure which is in the budget resolution passed by the Senate last Friday?

That projects spending at a rate that will bring about a national debt of $1,533 billion by the end of September 1985. That is a period of 3 years and 5 months.

Secretary MEHLE. All right.

Senator BYRD. Now, the national debt as of today or yesterday, or in this time frame, as I understand it, is $1,065 billion.

Secretary MEHLE. About $1,069 billion as of the end of April.

Senator BYRD. As of the end of April?

Secretary MEHLE. Well, actually, that is more current than that. As of May 20, $1,069 billion.

Senator BYRD. As of the end of April.

Secretary MEHLE. May 20, sir.

Senator BYRD. No. I am getting back to the end of April now.

As of the end of April your figures showed the debt to be $1,065 billion.

Secretary MEHLE. Yes. Right.

Senator BYRD. So, now, if you subtract that from the $1,533 billion, that shows that there will be a shortfall, a deficit, in that 3 years and 5 months of $468 billion.

Now, another way of putting that is that under the budget resolution approved Friday night the national debt according to the U.S. Senate will increase by 44 percent in 3 years and 5 months. My question to you is: Is that alarming?

Secretary MEHLE. It is alarming to me. And I expect that it is alarming to all Members of Congress, based on the extraordinarily keen interest in bringing the budget under control that has been displayed over the last several months.

Senator BYRD. It may be to you, but to me it has not been demonstrated that the budget has been brought under control.

Secretary MEHLE. I don't think it has been brought under control, but I think there are efforts that are being made to bring it under control. Their success, I think, remains to be assessed.

Senator BYRD. Now, in this current year, and as a part of the budget resolution passed Friday night, spending for this current year will increase by 13 percent over the previous year. That's correct, is it not?

Secretary MEHLE. I will take your word for it. If you take the projected change in outlays between fiscal year 1982 and fiscal year

1983 and divide that difference by 1982's outlays, and come up with 13 percent, that should verify your answer.

Senator BYRD. Correct.

Now, that compares with an increase in expenditures for the previous year of 14 percent.

Secretary MEHLE. All right.

Senator BYRD. So, after tremendous effort which was made last year by the President, after the national television commentators telling the American people that all the money is being cut off practically in Washington, that there are tremendous reductions in spending, we find that as a matter of fact the rate of increase in spending has decreased only from 14 percent to 13 percent.

Now, frankly, I do not call that getting spending under control. What would be your observation?

Secretary MEHLE. I think you have to look at all the reasons that the spending levels are what they are. It may not be satisfactory, but I think you have to do that in order to conclude that.

Senator BYRD. It seems to me that what we need to look at and what the Congress refuses to look at, and maybe the administration—I don't know—are the figures. What are the facts and figures? The figures are that the rate of spending increase for this current year is virtually the same as the rate of increase in spending for the previous year. And that's what counts.

What is the total cost of Government? How much is it increasing?

Secretary MEHLE. That's right. There is no question of the importance and relevance of that figure. I do think that the elements of spending are also relevant.

Senator BYRD. Now, we can have all sorts of reasons as to why it's gone up, and all that; but the fact is that it's gone up by 13 percent at a time when the American people have been led to believe that the rate of increase has been substantially reduced. The American people are being misled. It has not been substantially reduced.

And when we consider that the national debt will increase by 44 percent—44 percent in 3 years and 5 months—not only, to me, is that alarming but I don't see how we can expect interest rates to come down, how we can expect an economic recovery with the magnitude of the deficits which the Senate has approved for the 3-year period just mentioned.

Now, I want to get to another aspect of this.

Let me ask you this, Mr. Secretary. For 1983, what does the Treasury estimate will be the available funds in the marketplace to be loaned to companies, to private individuals, and to the Government? As I recall from our conversation of yesterday it was $460 billion.

Secretary MEHLE. That's right.

Senator BYRD. So you anticipate that much money, $460 billion, will be available to be borrowed by individual consumers, by businessmen, by the Government.

Secretary MEHLE. That's the amount we expect to be raised.

Senator BYRD. Expect to be raised. Yes.

Now, of that amount, when you consider the deficits in the budget for 1983, when you consider the off-budget deficits, when

you consider the Government-guaranteed programs which must go out into the money market, when you consider the Government-sponsored agency programs which must go into the money market, then, as I recall the figure from our conversation of yesterday, it means that the Government will be taking $250 billion of that $460 billion.

Secretary MEHLE. It is that order of magnitude.

Senator BYRD. In that order of magnitude, yes—give or take a couple of billion here or there. But in that order of magnitude.

So, another way of putting it is that in 1983 the Government will go into the money markets. The Government will borrow 54 percent of all the available, loanable funds. Correct?

Secretary MEHLE. I think your arithmetic will produce that number.

Senator BYRD. Thank you.

That's a broader range.

Now, to get back to your proposal to increase the debt limit by $195 billion. Your suggestion is that that be taken through the period of September 1983?

Secretary MEHLE. That's right, Senator.

Senator BYRD. Would you be inclined to a lesser increase and a shorter duration?

Secretary MEHLE. It seems to me and to us that, when the Congress determines a budget, the amount of borrowing thereby required is a necessary resultant. If the budget is prescribed by Congress, then we can only fulfill the financing requirements that Congress implicitly has laid upon us. We think, therefore, that the debt subject to limit figure ought to be coextensive with the budget which produces it.

Senator BYRD. Let me ask you this.

Of course, a certain part of our debt is temporary debt, and the other is permanent debt. What is it—a $400 billion permanent debt?

Secretary MEHLE. $400 billion is the permanent debt limit.

Senator BYRD. Would it be wise to increase that permanent debt? As a practical matter, all of it is permanent; but would it be wise to increase that $400 billion, say to a trillion, or whatever the figure is, say to $1,080 billion, and make that a permanent debt, which as a practical matter it is anyway. And then any increase in that could be called "temporary," but it would not be such a huge difference between what the debt actually is and the technically permanent part of it. That would probably be helpful to the Treasury, wouldn't it?

Secretary MEHLE. I think it probably would be helpful procedurally, because as we come to each of these debt limit crises at the end of a fiscal year the temporary ceiling reverts to the permanent ceiling. And in consequence of that we are faced with the inability even of refunding maturing securities after that permanent debt limit expiration and reversion to the temporary amount.

Senator BYRD. Now, in the budget which you submitted or which the administration submitted earlier, if my recollection is correct, the interest cost on the debt—the gross interest cost on the debt—is $134 billion. I'm wondering if that has changed since that figure was submitted.

Secretary MEHLE. No. The April 1982 estimate for fiscal year 1983 remains $134 billion.

Senator BYRD. Looking ahead to 1983, fiscal 1983——

Secretary MEHLE. That is for fiscal 1983.

Senator BYRD. Yes, that is fiscal 1983. That is correct.

Let me ask you this: What rate of interest does that assume?

Secretary MEHLE. It assumes that the 13-week bill rate in 1983 will be 10½ percent. That's a bellwether interest rate.

Senator BYRD. What is the bellwether interest rate at the moment?

Secretary MEHLE. Right now the interest rate on the 3-month bill is about 12 percent.

Senator BYRD. Is it 12, or 13?

Secretary MEHLE. Twelve. The 3-month bill.

Senator BYRD. So you are assuming merely a 2-point reduction in interest rates?

Secretary MEHLE. Well, 1½ points.

Senator BYRD. How do you see interest rates, say at the end of this calendar year?

Secretary MEHLE. I remember you asked me that question September 11 of last year. I declined to answer then; I respectfully decline to answer now.

Senator BYRD. All right.

[Laughter.]

Secretary MEHLE. I think we have enough work ahead of us to keep us all in business.

Senator BYRD. Well, I won't press the point.

I assume, of course, from your projections of 10.5 that you feel that there will be a slight decline in interest rates.

Secretary MEHLE. Let me say that that 10.5 is on what is referred to as "a discount basis." That's the way Treasury bills are sold, on a discount basis. When you convert the number to a so-called bond-equivalent basis, which relates it to the cost of securities that pay interest periodically, the number is a bit higher. It is about 11 percent instead of 10.5.

Senator BYRD. Well, the 11 is what the Government actually pays.

Secretary MEHLE. Right. The 11 is the equivalent interest rate when you compare a bill to an interest-bearing security. Since a bill does not bear interest but is on a discount basis, you have to equate the bill with the interest-bearing security. And the proper number, rather than 10.5, to use is 11. Now, 11, which we project for 1983 or upon which our calculations are based, compares with the present 13-week or 3-month bill rate of 12 percent. So those are completely comparable.

Senator BYRD. Good. I'm glad you clarified that because then it gets it on the same basis.

Secretary MEHLE. Yes.

Senator BYRD. So what that suggests to me is that you are really looking for a very small reduction in interest rates, a 1 percentage point reduction.

Secretary MEHLE. Well, we have based our projections upon that, and I probably should point out that the budget does not claim that the interest rates it uses for its calculations are forecasts, but says

only that the interest rates will be expected to decline as the inflation rate is projected to decline. But, naturally, those are consistent numbers with the President's economic program. So we are not disowning them in any sense; I'm just being precise about what their character and quality is.

Senator BYRD. You mentioned inflation. I want to commend the administration for a substantial reduction in inflation that has occurred. I think it deserves much credit—not all the credit for the fact of the reduction of the price of oil and many other things, but I think the administration deserves a great deal of credit for the reduction in the rate of inflation.

But one reason why I voted against the budget resolution last Friday is that—I do not pretend to be an expert at all on these matters—it just seems logical to me that if we are going to increase our national debt by 44 percent in 3 years; if we are going to have deficits in a 3-year and 5-month period totaling $468 billion, spend $468 billion more than we take in, that is almost certain to rekindle inflation. I think that it was a very devastating budget that the Senate passed. I didn't like to vote against it, but there was no way that I could vote for such figures—a 44-percent increase in the debt in 3 years and 5 months. It will probably take the American people a little while to comprehend that. I'm not sure it will take the business community and those who have to invest funds too long to comprehend it. It will probably take the American people a little while, because they don't focus on these matters.

I don't know how you can have that tremendous shortfall—$468 billion—in a period of 3 years and 5 months without it having upward pressure not only on interest rates—it's bound to have it on interest rates—but also an upward pressure on inflation.

I know how conscientious you are. You and I have very similar views, I think, on these matters. I don't want to get you in trouble by indicating that you might share all of my views; but, anyway, I'm glad you are in government, and I appreciate your being here today.

Secretary MEHLE. Thank you, Senator.

Senator PACKWOOD. Mr. Secretary, thank you. I have no more questions, and I'm sure that we can get this debt ceiling out of the committee rather soon. I don't guarantee the Senate floor, but out of the committee.

Thank you.

Secretary MEHLE. Thank you, Mr. Chairman.

(Whereupon, at 10:40 a.m., the hearing was concluded.)

[Additional material for the hearing follows:]

## UNIFIED BUDGET RECEIPTS, OUTLAYS, AND SURPLUS OR DEFICIT FOR FISCAL YEARS 1958–85, INCLUSIVE

[In billions of dollars]

| Fiscal year | Receipts | Outlays | Surplus (+) or deficit (−) |
|---|---|---|---|
| 1958 | $79.6 | $82.6 | −$3.0 |
| 1959 | 79.2 | 92.1 | −12.9 |
| 1960 | 92.5 | 92.2 | +0.3 |
| 1961 | 94.4 | 97.8 | −3.4 |
| 1962 | 99.7 | 106.8 | −7.1 |
| 1963 | 106.6 | 111.3 | −4.7 |
| 1964 | 112.7 | 118.6 | −5.9 |
| 1965 | 116.8 | 118.4 | −1.6 |
| 1966 | 130.8 | 134.6 | −3.8 |
| 1967 | 149.5 | 158.2 | −8.7 |
| 1968 | 153.7 | 178.8 | −25.1 |
| 1969 | 187.8 | 184.6 | +3.2 |
| 1970 | 193.8 | 196.6 | −2.8 |
| 1971 | 188.4 | 211.4 | −23.0 |
| 1972 | 208.6 | 231.9 | −23.3 |
| 1973 | 230.8 | 245.6 | −14.8 |
| 1974 | 263.2 | 267.9 | −4.7 |
| 1975 | 279.1 | 324.2 | −45.2 |
| 1976 | 298.1 | 364.5 | −66.4 |
| 1977 | 355.6 | 400.5 | −45.0 |
| 1978 | 399.6 | 448.4 | −48.8 |
| 1979 | 463.3 | 491.0 | −27.7 |
| 1980 | 517.1 | 576.7 | −59.5 |
| 1981 | 599.3 | 657.2 | −57.9 |
| 1982 estimate [1] | 628.4 | 728.9 | −100.5 |
| 1983 estimate [1] | 665.1 | 767.0 | −101.9 |
| 1984 estimate [1] | 722.0 | 815.8 | −93.8 |
| 1985 estimate [1] | 796.8 | 878.6 | −81.8 |
| 1986 estimate [1] | 859.8 | 933.9 | −74.1 |
| 1987 estimate [1] | 923.7 | 986.4 | −62.7 |

[1] The figures for 1982 through 1987 represent re-estimates published by OMB on Apr. 10, 1982.

Sources: Office of Management and Budget, December 1981 for years 1958–72. Budget of the U.S. Government, fiscal year 1983, Feb. 8, 1982, Executive Office of the President and OMB for years 1973–81.

## DEFICITS IN FEDERAL FUNDS AND INTEREST ON THE NATIONAL DEBT FOR FISCAL YEARS 1959–87, INCLUSIVE

[Dollars in billions]

| Year | Receipts | Outlays | Surplus or deficit | Gross interest [2] |
|---|---|---|---|---|
| 1959 | $65.8 | $77.1 | −$11.3 | $7.8 |
| 1960 | 75.6 | 74.9 | +0.8 | 9.5 |
| 1961 | 75.2 | 79.3 | −4.2 | 9.3 |
| 1962 | 79.7 | 86.6 | −6.9 | 9.5 |
| 1963 | 83.5 | 90.2 | −6.6 | 10.3 |
| 1964 | 87.2 | 95.8 | −8.6 | 11.0 |
| 1965 | 90.9 | 94.8 | −3.9 | 11.8 |
| 1966 | 101.4 | 106.5 | −5.1 | 12.6 |
| 1967 | 111.8 | 126.8 | −15.0 | 14.2 |
| 1968 | 114.7 | 143.1 | −28.4 | 15.6 |
| 1969 | 143.3 | 148.8 | −5.5 | 17.6 |
| 1970 | 143.2 | 156.3 | −13.1 | 20.0 |
| 1971 | 133.8 | 163.7 | −29.9 | 21.6 |
| 1972 | 148.8 | 178.1 | −29.3 | 22.5 |
| 1973 | 161.4 | 187.0 | −25.6 | 24.8 |
| 1974 | 181.2 | 199.9 | −18.7 | 30.0 |

## DEFICITS IN FEDERAL FUNDS AND INTEREST ON THE NATIONAL DEBT FOR FISCAL YEARS 1959–87, INCLUSIVE—Continued

[Dollars in billions]

| Year | Receipts | Outlays | Surplus or deficit | Gross interest [2] |
|---|---|---|---|---|
| 1975 | 187.5 | 240.1 | −52.6 | 33.5 |
| 1976 | 201.1 | 269.9 | −68.8 | 37.7 |
| 1977 | 241.3 | 295.8 | −54.4 | 42.6 |
| 1978 | 270.5 | 332.0 | −61.5 | 49.3 |
| 1979 | 316.4 | 362.4 | −46.0 | 59.8 |
| 1980 | 350.9 | 419.2 | −68.4 | 74.9 |
| 1981 | 410.4 | 475.2 | −64.7 | 95.6 |
| 1982 [1] | 416.1 | 527.9 | −111.8 | 115.8 |
| 1983 [1] | 433.2 | 549.6 | −116.4 | 134.1 |
| 1984 [1] | 469.6 | 580.8 | −111.2 | 143.5 |
| 1985 [1] | 513.5 | 626.0 | −112.5 | 150.7 |
| 1986 [1] | 546.7 | 665.8 | −119.1 | 153.1 |
| 1987 [1] | 586.2 | 701.0 | −114.8 | 150.1 |

[1] Figures for 1982–87 represent re-estimates from the Feb. 8, 1982 budget for fiscal year 1983. This revision was done in March 1982 by OMB.
[2] Interest on gross Federal debt.

Source: For years 1959–72, OMB, December 1981. For years 1973–81, OMB, budget for fiscal year 1983, Feb. 8, 1982. For years 1982–87, OMB, revision of fiscal year 1983 budget, March 1982.

## THE NATIONAL DEBT IN THE 20TH CENTURY [1]

[Totals at the end of fiscal years; in billions of dollars]

| Year | Amount | Year | Amount | Year | Amount | Year | Amount |
|---|---|---|---|---|---|---|---|
| 1900 | 1 | 1922 | 23 | 1944 | 204 | 1966 | 329 |
| 1901 | 1 | 1923 | 22 | 1945 | 260 | 1967 | 341 |
| 1902 | 1 | 1924 | 21 | 1946 | 271 | 1968 | 370 |
| 1903 | 1 | 1925 | 21 | 1947 | 257 | 1969 | 367 |
| 1904 | 1 | 1926 | 20 | 1948 | 252 | 1970 | 383 |
| 1905 | 1 | 1927 | 19 | 1949 | 253 | 1971 | 410 |
| 1906 | 1 | 1928 | 18 | 1950 | 257 | 1972 | 437 |
| 1907 | 1 | 1929 | 17 | 1951 | 255 | 1973 | 468 |
| 1908 | 1 | 1930 | 16 | 1952 | 259 | 1974 | 486 |
| 1909 | 1 | 1931 | 17 | 1953 | 266 | 1975 | 544 |
| 1910 | 1 | 1932 | 19 | 1954 | 271 | 1976 | 632 |
| 1911 | 1 | 1933 | 23 | 1955 | 274 | 1977 | 709 |
| 1912 | 1 | 1934 | 27 | 1956 | 273 | 1978 | 780 |
| 1913 | 1 | 1935 | 29 | 1957 | 272 | 1979 | 834 |
| 1914 | 1 | 1936 | 34 | 1958 | 280 | 1980 | 914 |
| 1915 | 1 | 1937 | 36 | 1959 | 288 | 1981 | 1,004 |
| 1916 | 1 | 1938 | 37 | 1960 | 291 | 1982 [2] | 1,136 |
| 1917 | 3 | 1939 | 48 | 1961 | 293 | 1983 [2] | 1,269 |
| 1918 | 12 | 1940 | 51 | 1962 | 303 | 1984 [2] | 1,394 |
| 1919 | 25 | 1941 | 58 | 1963 | 311 | 1985 [2] | 1,517 |
| 1920 | 24 | 1942 | 79 | 1964 | 317 | 1986 [2] | 1,646 |
| 1921 | 24 | 1943 | 143 | 1965 | 323 | 1987 [2] | 1,769 |

[1] Gross Federal Debt.
[2] Estimates for 1982–87 represent revised figures done by OMB, March 1982.

Source: Budget of the U.S. Government, fiscal year 1983, Feb. 8, 1982, Executive Office of the President and OMB.

## FEDERAL DEFICIT: FEDERAL FUNDS AND OFF-BUDGET ENTITIES, 1973–85

[In billions of dollars]

| Fiscal year | Federal funds | Off-budget | Total deficit |
|---|---|---|---|
| 1973 | −25.6 | −0.1 | −25.7 |
| 1974 | −18.7 | −1.4 | −20.1 |
| 1975 | −52.6 | −8.1 | −60.7 |
| 1976 | −68.8 | −7.3 | −76.1 |
| Transition quarter | −11.0 | −1.8 | −12.8 |
| 1977 | −54.4 | −8.7 | −63.1 |
| 1978 | −61.5 | −10.4 | −71.9 |
| 1979 | −46.0 | −12.5 | −58.5 |
| 1980 | −68.4 | −14.2 | −82.6 |
| 1981 | −64.7 | −21.0 | −85.7 |
| 1982 estimate | −111.1 | −19.7 | −130.8 |
| 1983 estimate | −106.9 | −15.7 | −122.6 |
| 1984 estimate | −100.8 | −14.3 | −115.1 |
| 1985 estimate | −103.2 | −11.0 | −114.2 |

Source: Budget of the U.S. Government, fiscal year 1983, Feb. 8, 1982, Executive Office of the President and OMB.

[By direction of the chairman the following communication was made a part of the hearing record:]

STATEMENT

OF

JAMES D. ROBINSON III

CHAIRMAN OF THE BOARD

AND CHIEF EXECUTIVE OFFICER

AMERICAN EXPRESS COMPANY

AND

NATIONAL CHAIRMAN

OF THE

U. S. COUNCIL ON

SAVINGS BOND VOLUNTEERS

FOR

THE UNITED STATES SENATE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE COMMITTEE ON FINANCE

May 27, 1982

As National Chairman of the U.S. Council for Savings Bond Volunteers, I strongly endorse the Treasury Department's proposal establishing a flexible yield Savings Bond for consumers. Small savers deserve a fair investment alternative, backed by the credit of the United States, which the present product does not provide.

Mr. Chairman, it is imperative that Congress approve Treasury's Savings Bond proposal by June 30 if the 1982 Savings Bond marketing campaign is to be successful. If Congress would take swift action to adopt the proposal savers would still have an opportunity to buy higher yield bonds this year at a more profitable rate of return and help begin the process of reducing the Treasury's dependence on our capital markets for debt management. Positive action by the Congress is essential if the Council is to achieve its primary objective: to help increase the rate of personal savings in this country.

This legislation is urgently needed for two important reasons:

- o It will enhance the attractiveness and competitiveness of Savings Bonds.
- o It will help lower the sky rocketing deficits that are contributing to excessively high interest rates and inhibiting economic recovery.

The Savings Bond Program provides an easy and effective way for small investors to automatically save through payroll

deductions. The Bonds they purchase are frequently set aside to finance children's higher education or to augment retirement benefits. The Program also offers these individuals a unique package of advantages: tax deferral benefits, total safety for principal from fluctuation in market value, and the ability to save in small amounts.

Last year, nine million people purchased over 70 million Savings Bonds worth $3.2 billion. Unfortunately, redemptions exceeded sales by $8.7 billion in 1981. Obviously, some savers are well aware of alternative investment opportunities with higher yields. Others through patriotism, remain loyal Bond holders.

It is precisely for these reasons that the Savings Bonds product must be improved. With a higher and more competitive rate of return on Savings Bonds, small savers would again purchase Bonds in greater volume. Many savers prefer investing in Savings Bonds because of the security they provide and the ease of purchase and redemption. Savings Bonds are guaranteed against market risk and loss, theft or destruction. In addition, Savings Bonds are not subject to state and local taxation and Federal tax is deferred until the Bonds are cashed.

Savings Bonds play a major role in debt management. This year the government will pay more than $100 billion in interest alone on the $1 trillion national debt. Savings Bonds help the

government meet this obligation in a cost-effective manner; the $67 billion in outstanding Bonds is $67 billion the government does not need to borrow in the public debt markets.

Clearly, the small saver deserves a fair alternative investment product from the U.S. Government. The viability and integrity of the Savings Bond Program depend on it. More participation means higher sales, and higher sales mean greater savings for all.

Mr. Chairman, I urge the Committee to report the Treasury proposal favorably and to seek immediate consideration of this measure by the full Senate. I am grateful to you for allowing me to submit this statement. My fellow Volunteer Chairmen from around the country and I are available to work with the Committee to ensure quick Congressional approval of the proposal.

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